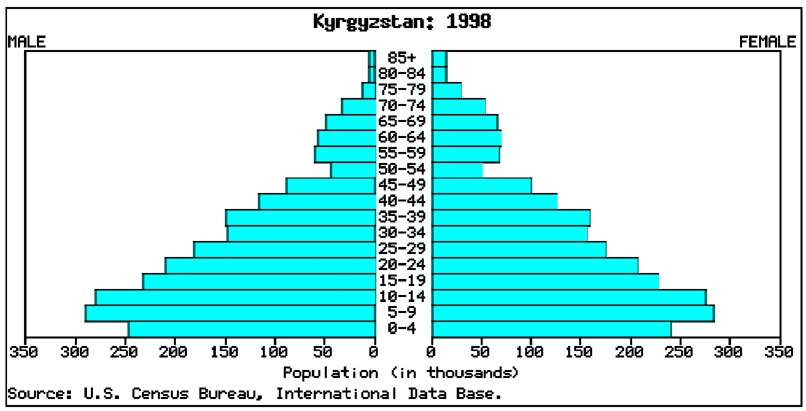
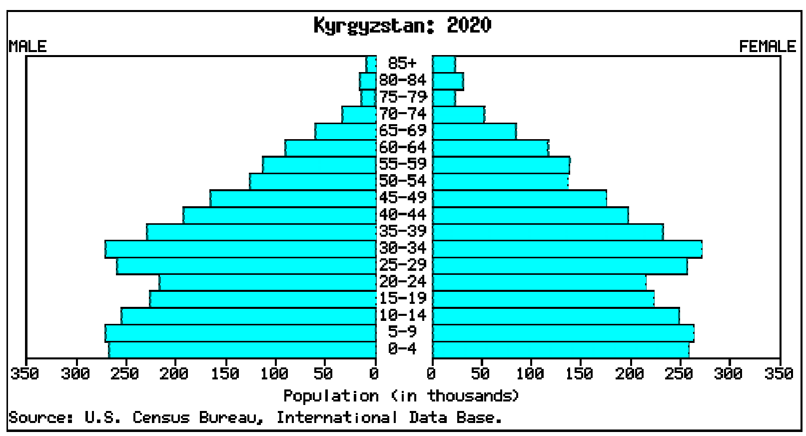
Kyrgyz Republic

Summary of Current System			
	Pillar 1	Pillar 2	Pillar 3
Type:	Defined-benefit		
Participation:	♦ Mandatory		
Management:	♦ Publicly-managed		
Financing:	♦ PAYGO		
Coverage:	♦ Permanent residents and state social insurance contributors		
Eligibility:	♦ Age 60 years (men) and age 55 years (women) and fulfilled minimum contribution period		





Challenges Facing Pension System

- ❑ Economic transition
- ❑ Demographic shifts
- ❑ Pension fund deficits

Summary of the Current Pension System

The public pension system in Kyrgyz Republic is a mandatory, defined-benefit system financed on a pay-as-you-go (PAYGO) basis. The Social Fund finances pensions (as well as other social security benefits). It is comprised of four funds: the Pension Fund, the Social Insurance Fund, the Employment Fund, and the Medical Insurance Fund. The Pension Fund provides old-age benefits, disability and survivor benefits to all employed individuals (including the self-employed), agricultural workers and members of cooperatives. The Social Fund primarily provides maternity leave, sick leave and funeral benefits. The Employment Fund provides unemployment compensation. Finally, the Medical Insurance Fund provides health care benefits.

The combined contribution to the Social Fund totals 39 percent of payroll. A majority of the contributions are earmarked for the Pension Fund. The Pension Fund collects 29 percent from employers and 2 percent from employees. Any deficits to the Social Fund are covered by general revenue.

Old-age benefits may be obtained when individuals have met the following conditions: (1) they have reached the retirement age, which is 60 years for men and 55 years for women and, (2) they have fulfilled the minimum number of years of service, which is 25 years for men and 20 years for women. Early retirement is available to workers in hazardous occupations (i.e., miners), workers in unhealthy environments (e.g., textile workers), mothers with large families and individuals involved in the Chernobyl disaster. These special groups may retire as early as 40 years and also may receive higher pension benefits.

Pension benefits are determined by the number of years of service and the average wage. Old-age benefits amount to 55 percent of average monthly wage during any five-year period, plus 1 percent of wage for each year in excess of the number of years of service. Minimum pension benefits are equal to the

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	4,522	5,764
Life Expectancy at Birth (Years)	63.77	69.68
Total Fertility Rate (Child Born per Woman)	2.67	2.25
Age Dependency Ratio (percent)	16.4	15.2
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	1.2	1.2

Source: U.S. Bureau of the Census. International Data Base.

Economic	*1996*
GNP (PPP in billions)[1]	9.0
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	5.5
GNP Per Capita (in PPP)[1]	1,970
Inflation Rate (percent)[2]	30.4
Labor Force Participation Rate (percent)[3]	42.3
Unemployment Rate (percent)[4]	4.8

Source: [1]World Bank; [2]IMF; [3]International Labour Office; [4]Central Intelligence Agency.

Pension	*1997*
System Dependency Ratio, 1996 (percent)[1]	34.0
Employee Contributions for Pensions (percent of earnings)[2]	2.0
Employer Contributions for Pensions (percent of payroll)[2]	29.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 (percent)[1]	7.7

Source: [1]IMF (May 1998); [2]IMF (January 1998).

minimum wage while maximum pension benefits are 80 percent of the average monthly wage. Pension benefits may be adjusted only Presidential Decree.

Challenges Facing Pension System

One of the challenges facing the pension system in the country is restoring its fiscal balance. The pension system has incurred deficits since its independence from the Soviet Union. The pension deficit in 1998 was 2.0 percent of GDP. Without any changes, estimates indicate that the pension deficit would fall to 1.3 percent by 2015. The financial situation of the pension fund will improve because of the country's favorable demographics. The proportion of individuals over 60 years remains fairly constant, at 15 percent of the population, in the next 20 years.

Despite favorable demographics trends, pension expenditures accounted for almost 8 percent of GDP in 1996. Favorable eligibility rules and other provisions for special groups have increased pension spending. Many working-age individuals also do not contribute to the pension fund. While the labor force participation rate is 83 percent in the Kyrgyz Republic, less than half contribute to the pension fund. Many non-contributors are agricultural workers or subsistence farmers. Others are unemployed or work in the informal economy. The ratio of contributors to pensioners is 1.6 compared the country's hypothetical maximum of 5.5, the ratio of the working-age population to the retirement population.

The Kyrgyz Republic experienced much economic hardship following the collapse of the Soviet Union. The national revenue in 1995 was equivalent to 47 percent of the 1990 revenue level. The economy improved somewhat with real growth at 7.4 percent in 1996 which and increased to 10.4 percent in 1997. The overall budget deficit also decreased to 9.4 percent of GDP in the same period. While the economy is experiencing an upward trend, maintaining inflation and pursuing the transition to a market-based economy will continue to create economic challenges.

Pension Reform Efforts

The Kyrgyz Republic has received assistance from donor agencies on pension reform. Tacis reform efforts included assistance in developing of the legal framework of pension reform, reinforcing the administrative and financial structure, and introducing data processing and registration capabilities. Additional funding is expected from both the World Bank and the International Monetary Fund (IMF) pending the fulfillment of certain conditions. World Bank will focus on the introduction of a law on non-state pensions; IMF funding will be directed at containing Social Fund deficits.

Under the IMF funding, a detailed action plan will include efforts to decrease the replacement rate, increase the number of contributors, and extend the contributory period to achieve eligibility status. In June 1998, an amendment was made to the Pension Law increasing the retirement age to 58 years for women and 63 years for men. This increase is effective as of July 1998 and is to be implemented by June 2004.

In addition to establishing a fiscally stable pension system, the Kyrgyz Government intends to reduce budget subsidies to zero by 2001 while attempting to balance the Social Fund. Further assistance from USAID and the World Bank include assisting in the development of a framework for the Kyrgyz stock exchange to coincide with the comprehensive privatization program. Banks and insurance companies have had little success in the past, but improvements are expected with support from USAID and the World Bank.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓	✓	✓
Formulation of proposals	✓	✓	✓
Development of draft legislation	✓	✓	✓
Introduction of legislation by parliament	✓	✓	✓
Review of legislation by parliament	✓	✓	✓
Passage of legislation by parliament	✓	✓	✓
Implementation of legislation	✓	✓	✓